

FOREIGN SERVICE DISPATCH

TO THE DEPARTMENT OF STATE, WASHINGTON, D.C.

FROM THE AMERICAN LEGATION, TOKYO

SUBJECT: JAPANESE EXPORTS

DATE: 10/10/40

During his visit to Tokyo, the American Legation has been informed by reliable sources that the Japanese public, through its press, has expressed and displayed, with criticism of Japan's low export prices in the foreign market. It was argued that low prices hurt the Japanese economy and that the Japanese government should take steps to increase Japanese wages which in turn would increase the value of Japanese exports. It was also suggested that the Japanese government should take steps to increase the value of Japanese exports in the markets of South and Southeast Asia where Japanese export prices are often too low.

It was also stated that the Japanese public is in the process of being educated by the Japanese Office of the Ministry of Commerce and Industry that the Japanese government is taking steps to increase the value of Japanese exports. It was also stated that the Japanese government is taking steps to increase the value of Japanese exports by increasing the value of Japanese exports in the markets of South and Southeast Asia where Japanese export prices are often too low.

In talks with Japanese Ministers, the American Legation has been informed that the Japanese government is taking steps to increase the value of Japanese exports by increasing the value of Japanese exports in the markets of South and Southeast Asia where Japanese export prices are often too low. It was also stated that the Japanese government is taking steps to increase the value of Japanese exports by increasing the value of Japanese exports in the markets of South and Southeast Asia where Japanese export prices are often too low.

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The visit of the distinguished and famous economist, Ludwig ERHARD, to Japan from October 10 to 20, 1941, was a part of his trip through Asia. He was given the title of a distinguished state guest. He had conferences with the Prime Minister, the Minister of Foreign Affairs and with various economic ministers, and with the Secretary of the Treasury. His visit in Tokyo coincided with the Japanese General Press Conference and lasted before Japanese business groups. A day after his departure, the Yamanashi in Tokyo gave the economic daily NIKKEI (1237) an exclusive feature story, written by Erhard, "The Economic Problem of Japan - as I see them" (see enclosure No. 1).

The Erhard visit to Tokyo was a major event, not because of any systematic talks conducted by German-Japanese relations, but because of a series of statements and comments made by Erhard on economic problems and policies of Japan. He was particularly critical and, from the Japanese point of view, gave a poor understanding of Japan's economic position. Erhard also made some statements on relations and cooperation with Germany, largely concerned in the fact that he was stating the German position. The Japanese Foreign Office tried hard to put a more reasonable face on the press quotations. The German Embassy worked hard to overcome the unfavorable impressions and the Japanese business community and the press were not then willing to forget the whole affair as soon as it had blown over. Erhard's few vicious public refutations by independent economists and some damage to Erhard's reputation as an economic analyst, the visit did no harm to the relations of the two countries, so far as the Embassy was concerned. A subsequent announcement of the Japanese trade negotiations between Japan and Germany would finally hold in Tokyo in late November helped a lot to restore calm to the scene.

A major Erhard theme was that Japan's prices of export commodities, particularly of consumer goods, in the Japanese (and American) market were too low in comparison with those of Western Europe and the United States, and that these price differentials cannot be offset by technical improvements and increased efficiency of the competitors. This, he said, was a serious indictment to Japanese goods in the developed countries. In Japan, he thought, would be well advised to do something about it, if they wish to increase their exports. He made the somewhat startling comment that "I am fully convinced that Japan could beyond doubt be able to increase the value of its exports to the United States considerably (the present quantities of exports are not too small) if Japanese prices were to some extent adjusted to the pattern of costs in those markets."

To his analysis of the reasons for Japan's low export prices, Erhard argued that Japan's low productivity in industry and inefficient agricultural production were important depressants of industrial and agricultural prices. Furthermore, the low level of Japanese export prices in Western markets may indicate that the yen is undervalued in relation to the currencies of the Western countries and that it should perhaps be revalued. Erhard also suggested that Japan should concentrate its efforts on the expansion of the internal market by permitting wages to rise and consumption to increase. Pressure for higher wages, he said, will inevitably come upon a determined effort to improve industrial efficiency.

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and labor productivity. This, as a long-term trend, should be taken into account in entrepreneurial decisions.

Erhard acknowledged that Japan's exports to the underdeveloped areas are facing stiff competition from countries which have even lower wage and price levels, and that in these areas the reverse statement about the yen, namely, that it is overvalued, could be made. He considered this a serious problem facing the Japanese economy and one for which he had no ready answer. He warned specifically against the adoption of multiple exchange rates as a solution.

Erhard's comments stirred a good deal of discussion in the Japanese press resulting from the criticism that he had advised Japan to take a course of action that would obviously be contrary to its economic interests to a limited approval of the idea that Japan should concentrate more of its efforts on the raising of labor productivity even if thereby wages would have to be raised. The attack on Erhard's statements centered on three points: (1) Japan's export prices for textiles and sundries may be low, but prices of machinery, chemicals and other manufactured goods are not competitive in export markets, in fact are often higher than German export prices. (2) Expanding the home market and raising wages is a luxury which exchange-poor and export-dependent Japan cannot afford. (3) The criticism of the alleged propensity of Japanese businessmen "to run for government protection every time the economy gets into trouble" (a statement he made on various occasions) was considered as ill befitting a German minister who must be familiar with German cartel practices and the government subsidies extended to German exporters.

The head of the Foreign Office's Bureau of Economic Affairs, Nobuhiko USHIBA, explained to the Embassy that Erhard was not fully and fairly quoted in the press, partly because of misunderstandings arising out of the interpretation of his German. Erhard was expounding general and theoretical consideration, Ushiba believed, but did not mean to recommend definite policy steps, such as a general wage increase or a change in the exchange rate. Ushiba is, of course, an old German hand and no doubt sought to put a good face on Erhard's remarks. He is also a very able officer, however, and the Embassy considers that his exposition of Erhard's press conference remarks was in considerable part a useful corrective to the press treatment given them.

The Socialists quoted Erhard in the Diet in support of a stronger minimum wage law than the Government proposed bill. The business community felt that Erhard had given the kind of advice to Japan that other countries have given Germany in recent months, and that the criticism comments he made about Japanese economic matters could easily be directed against German low wages, an undervalued mark, and the highly cartelized German business structure.

By far the most reasonable explanation came from the German Embassy in Tokyo in a later conversation with Embassy officers. An official in charge of economic and commercial matters said that Erhard had given his lecture to the Japanese because German industry representatives had told him before his departure from Germany that Japan's export prices in Western Europe were intolerably low, that the check-price system was ineffective, and that German domestic producers would be

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ruined by Japanese competition if the restrictions on imports of Japanese goods and tariffs were lowered. Similarly, German businessmen stressed to Erhard that Japanese competition in Asian markets was a serious menace to German exports. This complaint, the German official explained, must be understood in the light of very heavy pressure from GATT on Germany to lower its import restrictions and its tariffs forthwith. Thus, according to the German Embassy's explanations, Erhard was telling the Japanese why it would be difficult for Germany to make concessions in the forthcoming trade talks with Japan. In fact, Germany had stalled the reopening of trade talks with Japan deliberately since the expiration of the trade agreement in March 1957 and had only very reluctantly agreed to begin them in late November.

During his visit to Japan, Erhard also talked with Foreign Minister FUJIYAMA, the Minister of International Trade and Industry, Tatsunosuke TAKASAKI, the Director of the Economic Planning Agency, Takeo MIKI, and Hayato IKEDA, Minister of State without portfolio. Erhard asked Fujiyama why Japan continues to bar foreign investment in Japan and argued strongly against Japan's restrictive attitudes and its unfounded fears of losing control over the domestic economy if foreign capital is admitted. Erhard also told the Japanese Government leaders that the United States and Japan must take the lead in promoting economic development and the standard of living in South and Southeast Asia. Erhard stressed his belief that private initiative must take the lead in this respect. He characterized the largely government sponsored programs (of the United States) for economic development as too ambitious, inefficient, and not sufficiently directed toward the small farmers and artisans most in need of help. He also stated that Germany was ready to cooperate in Asian economic development, although in talks with the Japanese he evidently put stress on private rather than inter-governmental action.

In conversation with Takasaki, he was asked whether Germany would consider participation in financing the construction of the Aswan Dam jointly with Japan. He reportedly answered that such an enterprise would exceed the economic strength of Germany and Japan together and would in fact be infeasible without the assistance of the United States. This comment is in line with others he made when questioned on the feasibility of a joint German-Japanese economic approach to development in underdeveloped areas. He invariably stressed that Germany, and in his opinion also Japan, could only supplement the assistance which would have to come mainly from the United States.

Another problem raised in public and private discussions in Japan was the impact of the European Common Market on German-Japanese trade. Erhard sidestepped the question publicly by his remark that Japan's prices were so low that even after the increase of tariffs for the Common Market on January 1, 1958, Japanese exports would be competitive in Europe. Takasaki reportedly asked Erhard why Japan couldn't join the Common Market outright.

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According to the press, MITI Minister Takasaki asked the German Embassy whether it would be feasible for Japan to float a bond issue in Germany, as it proposes to do in the United States. The possibility of a Japanese bond issue in Germany was reportedly discussed with Erhard, on other occasions as well. The German Embassy outrightly denied that such discussions had taken place. Minister Takasaki also issued a denial.

In the wake of Erhard's visit, an announcement was made by the Japanese Government that trade talks would be held with German representatives in November 1958 in order to revive the defunct trade agreement, which expired in March 1957. The German Embassy told the Embassy in this connection that there is much reluctance in Germany to make concessions to the Japanese. The Germans want to keep their import restrictions and tariffs vis-a-vis Japan on the existing level and feel that no new concessions need to be made to stimulate trade with Japan, which was high even during the period of no agreement.

The Germans will send a delegation of government officials, reinforced by a GATT "expert" to Tokyo. It is expected that Japan will ask the Germans to abide by the GATT recommendations that German import restrictions be lowered. The Germans in turn will suggest that on "sensitive" items, principally textiles, china-ware, and toys, quantitative restrictions should be imposed. They may seek to put ceilings on Japanese exports of such items by direct industry-to-industry negotiations rather than by governmental agreement, however.

For the Ambassador:

Ben R. Tribodeaux

Ben R. Tribodeaux
Minister for Economic Affairs

Enclosure: Newspaper release
written by L. Erhard

Departments: Please pass to Room

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